The Civil Service Superannuation Board
2006 Report to Members

We are pleased to provide you with this summary of The Civil Service Superannuation Board's (Board) 2006 Annual Report. You can also request a copy of the full Annual Report by contacting the Board office, or it can be viewed at www.cssb.mb.ca.

Financial	**2006 (*)**	2005 (*)
Rate of Return on Investments	**12.85%**	14.50%
Investments at Market Value	**3,836,359**	3,384,202
Net Investment Income	**113,716**	96,680
Current Period Change in Fair Value of Investments	**280,247**	297,292
Employee Contributions	**100,844**	90,885
Employer Payments	**111,803**	100,715
Pension Payments	**211,617**	195,061
Refunds and Transfers	**25,490**	18,306

* $Thousands unless otherwise noted

Membership		
Non-Retired Members	**30,005**	29,750
Retired Members and Other Recipients	**14,101**	13,528
Total Members	**44,106**	43,278

Member Services

The Board offers the following services to members and their families:

- Individual Meetings
- Pre-Retirement Planning Seminars
- Employee Pension and Insurance Seminars
- Personal and General Inquiries
- Electronic Communications

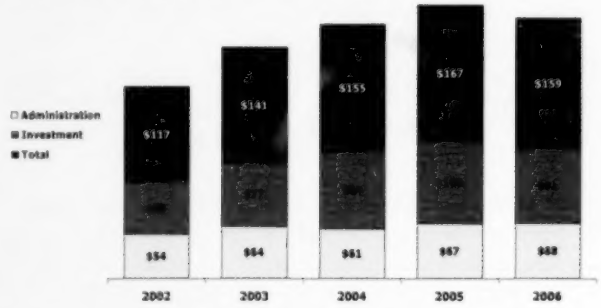
You may make an appointment to view any of the following at the Board office:

- A copy of The Civil Service Superannuation Act (the Act) and all amendments
- The Annual Information Return submitted each year to the Pension Commission of Manitoba
- A copy of the latest Actuarial Valuation Report

Administration and Investment Cost

The Board's annual administration and investment cost per member continues to be one of the lowest in Canada for complex defined benefit plans. The total annual cost per member for 2006 was $159 consisting of $68 for administration and $91 for investment related expenses.

Annual Cost Per Member



Cost-of-Living Allowance

- 10.2% of employee contributions and matching employer payments go to a separate indexing account to fund cost-of-living increases (COLA)
- The account funds approximately half the COLA increase while employers pay their share
- Pensioners and beneficiaries receive an annual increase to a maximum of ⅔ of the increase in the Canadian Consumer Price Index (CPI)
- The COLA paid July 1, 2006 was 1.43%

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Message from the Chair **Gary N. Coopland**

On behalf of the members of the Board, I am proud to present to you the 2006 Annual Report for The Civil Service Superannuation Fund.

The Investment Team and our Chief Investment Officer, Lindsey Fuller, once again shepherded our investments to a rate of return of 12.85%, almost double the rate required by our actuarial assumptions. While our rate of return was slightly below benchmark, we must remain mindful that over the last five years alone, the Board's investment policy has been responsible for $403 million of added value. I wish to express my appreciation to all members of the Investment Committee for their role in developing our investment policy and to the internal team of investment professionals for their hard work and dedication.

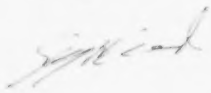
Over time, legislated Plan improvements, while benefiting stakeholders, have increased the complexity of benefits delivery. Fortunately for stakeholders, the Board has supported Management's vision and business plans over the years and it is with gratitude that we collectively acknowledge the contribution made by retiring General Manager Bob Covernton. Under Bob's guidance, Management was consistently able to meet Board expectations by providing efficient and equitable treatment to all members of the Fund with excellence. It has been my pleasure to work with Bob over the years.

Under a Board-approved succession plan, we welcome Bruce Schroeder to his new role as General Manager. Bruce was formerly the Fund's Director of Client Services Administration and becomes only the fourth person to hold the position of General Manager since the Fund's inception in 1939.

The terms of several Board members expired on December 31, 2006. I wish to thank Brent Reed, Manitoba Hydro representative, for his service on and contribution to the Board. Also, thanks to David Jurkowski, Civil Service representative – Manitoba Finance, a Board member who also served on the Finance and Audit Committee. Finally, thanks to Susan Rusk, Civil Service representative - Intergovernmental Affairs and Trade. Susan served on the Compensation Committee, the Governance Committee and was Vice-Chair.

A pension plan, in many cases, ranks as one of the most valuable and important assets acquired in one's lifetime, therefore, the vision of the Board must be long term. To Chair a Board whose members are dedicated to ensuring that the Plan's viability is sustained over a long period of time is rewarding. I look forward to working with new Board members in 2007 and to meeting the challenges of the future.

On behalf of the Board and the stakeholders, I would like to express my sincere appreciation to the staff of the Board for their efforts in maintaining and improving the services that they provide to the membership.



Message from the General Manager **Bruce Schroeder**

The past year has been a year of transition for The Civil Service Superannuation Fund (CSSF). Mr. Bob Covernton, the third General Manager in the Fund's 68 year history, retired on December 31, 2006. During the year, the Board's succession plan was implemented, resulting in a gradual transfer of Bob's responsibilities. Bob's experience and expertise will be missed and we wish him a long, healthy and happy retirement. I look forward to continuing and building upon the strong relationships that have been established with all stakeholders.

The method and timing of the election of employee representatives on the Board changed in 2006. Timeframes were standardized and the ballot verification process was simplified. We feel these changes contributed to the 54% increase in the number of eligible ballots compared to the last election. The increase in the number of ballots received, and the reduction in unverifiable ballots from 13% to 2%, seems to indicate that the changes to the process had positive results.

The elected Board members assumed their roles effective January 1, 2007. I would like to take this opportunity to welcome the new members of the Board and thank the former members for their years of service.

Solid investment returns in 2006 continued to strengthen the CSSF's ability to keep pension benefits secure. The annual rate of return was 12.85%, well above the actuarial rate of 6.5%. Continually exceeding the actuarial rate means that benefits are secure and reserves can be established for years where investment returns may not be as high. Although the Fund's five-year return has averaged 11.08% and the 10 year return has averaged 9.7% compared to an average actuarial rate of 6.650% and 6.925% respectively, we always have to be mindful that market volatility can impact future returns. Investment returns are a large component of the continued health of the Plan and the goal to provide consistent performance remains a high priority. Although there is a tendency to focus on short-term returns, the health of a pension plan is determined over the long-term.

The Board launched a newly designed website in 2006. The site has been streamlined to be more user-friendly for all stakeholders. We are exploring the use of the Internet to further enhance our services in 2007. Examples of possible enhancements include providing address change forms and the ability for pensioners to print T4A's. The online pension estimator continues to be a popular feature with over 8,600 members registered. In 2006, there were more than 77,000 pension estimates and 9,000 termination estimates run by 4,542 members.

There are a number of issues that will challenge the CSSF in 2007. The 2007 Federal Budget allows for income splitting of pensions. While this may not require direct action on our part, we will have to be aware of the details as they unfold to be able to respond to queries. Also in the Budget is a change to The Income Tax Act (ITA) that will allow a member to accrue pension benefits and receive a pension from the same plan at the same time. This may involve a significant time commitment depending on the requirements of the provision in the ITA.

Another issue that may impact the Fund is the proposed changes to the Canadian Institute of Chartered Accountants handbook concerning how pension plan investments are presented on the balance sheet. We will be working with the Fund's actuary to determine if the changes are applicable to us.

I would like to thank the staff for their ongoing efforts with the CSSB. Thanks also to the Board for their support and commitment throughout this year of transition. Members are fortunate to have such caring, hard working and skilled individuals looking out for them.

Investment Overview

The Fund generated double digit returns for the fourth year in a row. Rising short-term rates in most developed countries had little effect on equity prices as global liquidity remained plentiful. Bond yields, which generally changed little over the year, resulted in modest returns. The U.S. dollar depreciated almost 7%, which had a positive effect on U.S. multi-national companies' profits.

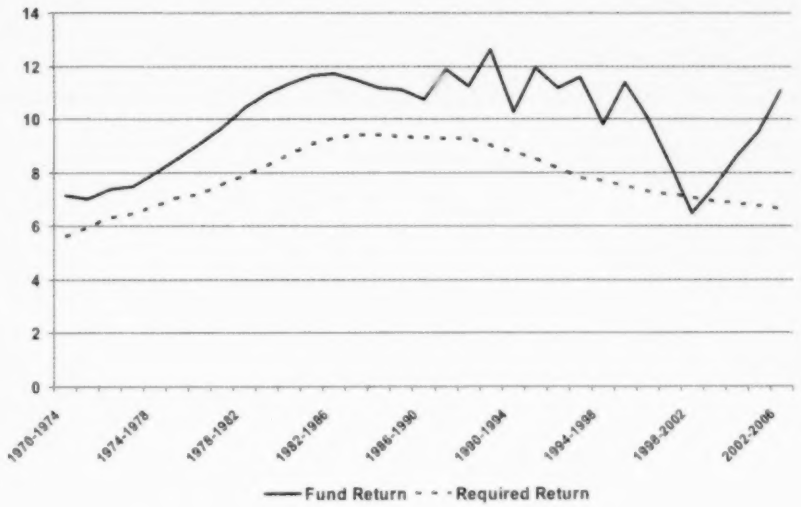
Commodities were again a major story. Oil, as measured by West Texas Intermediate, traded as high as $81 U.S. per barrel and as low as $52 before closing the year at $61 per barrel. Natural gas fell from $10 U.S. per thousand cubic feet in the spring to $6.50 by year-end. Most other commodities continued strong until late summer before giving back some of the gains from 2005. Fears of slowing growth in the United States and China were behind many of these moves.

Led by German exports, Europe finally experienced some economic growth with improved consumer spending in most countries. Continued strife in the Middle East affected the returns in the region, but otherwise had no noticeable effects. Emerging markets continued to be a major beneficiary of ample world liquidity.

For the fifth year in a row, all asset classes experienced positive returns. Driven by strong equity and real estate markets, the Fund benchmark, or expected return was 13.01%. Although our decision to be heavily overweight in equities made a positive contribution, underperformance from Superman Resources Inc. and some of our North American equity portfolios, resulted in the Fund underperforming the benchmark by 0.16% for a Total Fund return of 12.85%, well above the actuarial requirements. This translates into approximately $4.8 million of negative added value versus the benchmark. This is the first year since 1999 that we have not added value over the benchmark.

After two outstanding years, Superman Resources Inc., which is approximately 4% of the Fund, produced a negative return of 2.89%. The real estate portfolio continued to perform well, returning 20.74%. Canadian equities, benefiting from generally strong commodity prices, produced 12.28%. International equities delivered a 27.52% return and U. S. equities 13.88%. Bond returns, where the Fund was underweight, delivered 4.61%.

Five-Year Moving Average



Strategy and Outlook

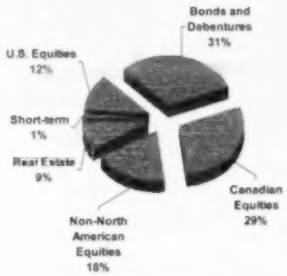
Although it has become the consensus view, we continue to expect a soft economic landing in the U.S., the world's largest economy. This should be viewed as a pause in an ongoing longer-term cycle rather than the end of a business cycle leading to a recession. Such a scenario should have favourable effects by moderating inflation and the demand for both industrial and, to a lesser extent, food commodities. There exists a number of extended real estate markets worldwide, but the monetary authorities are well aware of this and are working to manage a return to more normal markets without causing undue stress to their respective financial systems. Liquidity conditions remain favourable, thus supporting financial asset prices.

We continue to favour emerging markets over the more developed markets for a number of reasons. First, despite the significant appreciation we have witnessed, valuations are still somewhat cheaper than developed markets, although nowhere near as cheap as in 2003. Second, the return on equity and excess return over the cost of capital continues to be very favourable in a number of these markets. Third, many of the countries, such as Brazil and Indonesia, are unwinding restrictive monetary policies, and there should be a resultant noticeable pickup in economic activity as interest rates decline. The potential downside to this position is that as valuations have become closer to the more mature developed markets, event risk will likely lead to more volatility in these markets.

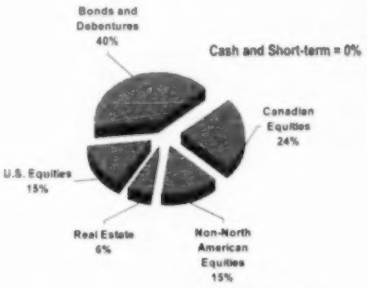
We anticipate a period of sedate returns from fixed income investments and are likely to maintain our asset weighting close to the policy minimums.

We are continuing to experience value creation from the various real estate development projects in the portfolio but new attractive investments continue to be difficult to find.

Fund Investments



Investment Policy



Governance

Once again, the Board engaged an audit firm to ensure that the methodology employed in calculating the Fund rates of return conformed with the standards recommended by the Institute of Chartered Financial Analysts. As in prior years, the Board received an unqualified audit opinion.

The Board and sub-committees regularly receive management-certified compliance reports and informational material to assist with oversight requirements. In addition, the Board reviews and formally approves the minutes of all sub-committee meetings.

Policies and procedures that continue to guide or impact investment decisions include:

- Statement of Investment Policies and Procedures
- Investment Manager Mandates
- Proxy Voting Policy and Guidelines

Members/Retirements

- Total members increased by 828 to 44,106 during 2006
- Employees/former employees participating in the Fund increased by 255 to 30,005
- Pensioners/beneficiaries increased by 573 to 14,101

Committee Members

Board

Chair
Gary N. Coopland,
Retired Vice-President Investments
The Great-West Life Assurance Company

Employee Representatives
Ray Erb, Manitoba Government & General Employees Union
David Jurkowski*, Manitoba Finance
Brent Reed*, Manitoba Hydro-Electric Board
Susan Rusk*, Intergovernmental Affairs and Trade

Employer Representatives
Tom Bleasdale, Retired, Assistant Deputy Minister of Labour
Gabriel Forest, f.c.a., Chartered Accountant
Carmele Peter, Solicitor
Dr. G. Les E. Ullyot, Family Physician,

Finance and Audit

Gabriel Forest, f.c.a., Chair
Carmele Peter, Employer Representative
Currently Vacant, Employee Representative

Compensation

Currently Vacant, Chair
Gary N. Coopland, Board Chair
Currently Vacant, Employee Representative

* David Jurkowski, Brent Reed and Susan Rusk served on the Board until December 31, 2006 at which time they were replaced by newly elected members Wayne Andon, Monica Girouard, and Ryan Wiebe (Manitoba Hydro).

Investment
Peter G. Munro˜, (effective 11/30/2006) Chair, Executive Vice-President, Chief Investment Officer, The Great-West Life Assurance Company

Gary N. Coopland^, Retired
Vice-President Investments
The Great-West Life Assurance Company

Dick Archer˜, Chair, I.G. Investment Management Ltd.

Ewald Boschmann^, Deputy Minister of Finance, Province of Manitoba

Charlie Curtis˜, Retired, Deputy Minister of Finance, Province of Manitoba

Ray Erb^, Manitoba Government and General Employees Union (employee representative)

Bruce Schroeder^, General Manager, Board

Stan Susinski˜, Retired, Chief Investment Officer, Alberta Finance

The Investment Committee also manages the assets of the Manitoba Hydro Employer Fund and three Centra Gas portfolios. Manitoba Hydro appointed the following person as their representative to those committees in conjunction with the above members.

Vince Warden, Vice-President, Finance and Administration and CFO, Manitoba Hydro-Electric Board

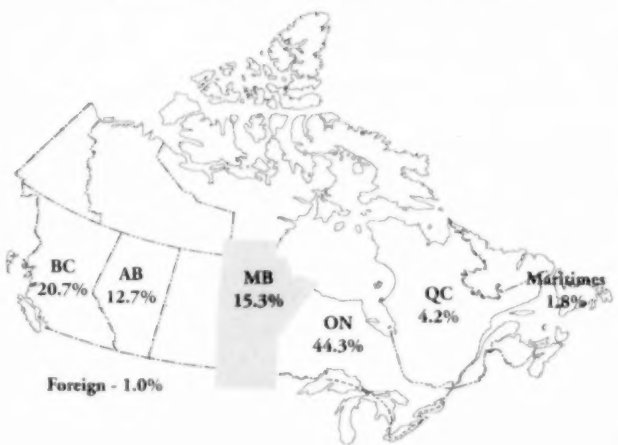
˜ Appointed based on investment expertise
^ Required by legislation

Real Estate Performance

2006 again saw Real Estate deliver strong returns, producing 20.74% versus a 18.62% benchmark. Capitalization rates continued to fall, but we believe most of that effect is in the past. Going forward, we expect more modest returns from this asset class. Our portfolio benefited from very positive returns from several development projects. Development started on our first international investment, a residential development in Tokyo.

The portfolio continues to be diversified by property type and location with investments from coast to coast. Manitoba investments represent over 15% of portfolio assets and include several major properties such as Pembina Crossing Shopping Centre, Crossroads Station Shopping Centre and the office buildings at 155, 175 and 185 Carlton Street in downtown Winnipeg.

Real Estate Properties
Distribution by Geographic Location



Questions or Comments?

The Civil Service Superannuation Board

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